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of the Global Fund

OIG RELEASES REPORTS ON THREE AUDITS AND TWO INVESTIGATIONS

The Office of the Inspector General (OIG) has released five new reports – three on audits in Bangladesh, Djibouti and Ghana, and two on investigations in Djibouti and South Africa. All five reports are dated 29 October 2012.

Bangladesh

In May–June 2011, the OIG carried out an audit of 15 grants to Bangladesh involving five principal recipients (PRs): BRAC; the International Centre for Diarrheal Disease Research, Bangladesh; the Economic Relations Division (ERD) of the Ministry of Finance; the Ministry of Health and Family Welfare; and Save the Children USA. Some of the grants date back to Round 2. The grants had a total value of \$214 million, of which \$157 million (73%) had been disbursed at the time of the audit.

As is the case with most audits, the OIG noted a number of good practices and achievements, but also identified significant weaknesses in internal controls.

The OIG identified \$1.6 million in what it termed “potentially recoverable expenditures.” This amount includes \$439,330 in expenditures that were not budgeted for, \$155,557 in expenditures that the OIG deemed ineligible, and \$362,818 in taxes and duties. Subsequent to the audit, the OIG received additional documentation to support some of these expenditures. The OIG recommended that the Global Fund Secretariat review this documentation and determine exactly how much the Fund should try to recover. At the time the audit report was released, \$106,500 related to ineligible expenses had already been repaid.

In a letter accompanying the report, General Manager Gabriel Jaramillo said that significant action had

already been taken to address the risks identified in the audit. The terms of reference of the local fund agent (LFA) have been substantially revised and the LFA team has been restructured; efforts to obtain exemptions from taxes and duties for Global Fund expenditures have been made by several PRs; and procurement policies and procedures have been improved.

Following the audit field work, a number of issues were referred to the OIG Investigations Unit. An investigation report on a sub-recipient (SR), PMUK, was published on 10 July 2012 (see [GFO article](#)). Other investigations are in progress.

Djibouti

In April–May 2010, the OIG conducted an audit of all four Global Fund grants to Djibouti. The PR for the grants is the Executive Secretariat for the Fight against AIDS, Malaria and Tuberculosis. The audit followed reports by the LFA of significant management deficiencies and financial shortcomings. As a result of some of the findings in the audit, the OIG's Investigations Unit launched an investigation in March 2011. The OIG has released two reports, one on the audit and one on the investigation.

Between the audit and the investigation, the OIG found that of the \$23.1 million disbursed as of June 2012, \$8.2 million (35%) was used for purposes that were inconsistent with the grant agreement or in violation of it. This amount includes expenditures of \$755,553 that the OIG termed "fraud, theft and abuse"; \$2.5 million in expenditures that the OIG deemed ineligible; and \$5.4 million in expenditures that the OIG said had no or inadequate support documentation.

At the time of the reports, the Government of Djibouti had repaid \$475,904. The investigation report contains a long letter from the Chair of the country coordinating mechanism (CCM) in which the CCM contests many of the OIG's finding with respect to ineligible and unsupported expenditures.

The OIG said that representatives of the PR engaged in various fraudulent acts. For example, the OIG said, when a Round 4 grant was closed out, the PR steered the contract for audit services to a newly formed external auditing firm that did not hold the required licence to perform audit work and was selected through a tender where fabricated bids were considered alongside the selected firm. According to the OIG, the ultimate audit report submitted by this firm bore striking similarities in form and substance to previous audit reports prepared by a different firm, and contained false and inaccurate information including the understatement of at least \$300,702 in outstanding advances to SRs.

The OIG also referred to the creation of falsified supporting expenditure documentation to trigger payments of grant funds; the misappropriation of programme assets for non-authorised use; and the tampering of CCM meeting attendance sheet to (inaccurately) reflect that CCM members had expressly approved expenditures that were over budget.

The audit found, and the investigation confirmed, that the PR manifested significant weaknesses in financial management, including the absence of documented policies and procedures, deficiencies in the financial accounting system, a lack of budgetary control, lax cash and bank management, a failure to record income in the books of account, and the absence of procedures for selecting and evaluating sub-recipients.

In a letter accompanying the reports, General Manager Gabriel Jaramillo said that the Secretariat has taken a number of actions to mitigate the risk. These include replacing the leadership of the PR and the CCM; providing training to the CCM; delaying Phase 2 funding; requiring the PR to use the Global Fund's Voluntary Pooled Procurement system; providing disbursements only for essential services; requiring the use of an external fiduciary agent; and working with the CCM to identify alternative PRs.

Ghana

In November–December 2010, the OIG conducted an audit of 12 grants to Ghana from Rounds 1–8, involving five PRs: the Ghana Health Service (an autonomous agency under the Minister of Health), AngloGold Ashanti, the Adventist Development and Relief Agency of Ghana, the Planned Parenthood Association of Ghana, and the Ghana AIDS Commission. The total value of the grants was \$351 million, of which \$270 million (77%) had been disbursed at the time of the audit.

The OIG said that Ghana has made solid strides in its response to the three diseases, and that the capacity of the PRs to manage Global Fund grants has grown. Nevertheless, the OIG reported, there are significant weaknesses that need to be addressed in internal controls particularly in financial management, but also in grant oversight, procurement and service delivery.

The OIG identified \$6.5 million in expenditures that were used for programme purposes but that were not in the approved budgets for the grants. The OIG identified a further \$3.3 million that were used for programme purposes but that exceeded the approved budgets. The OIG said that these expenditures had not been approved by the Global Fund Secretariat. The expenditures were incurred by the three national disease control programmes, which are under the auspices of the Ghana Health Service.

The OIG recommended that the Secretariat make the final determination concerning any amounts that should be recovered. In a letter that accompanied the audit report, General Manager Gabriel Jaramillo said the expenditures that were not in the budget or that exceeded the budget were included in progress reports and were taken into account in disbursement decisions, “so the Fund was aware of their existence.” Mr Jaramillo added that the PRs and the CCMs had already taken action to address the recommendations in the audit report related to internal control deficiencies.

During the course of the audit, some issues arose that have been referred to the Investigations Unit of the OIG. This means that there are indications that some funds may have been misappropriated.

South Africa

The OIG undertook an investigation into a Round 9 grant administered by the National Religious Association for Social Development (NRASD). The investigation was launched because the OIG had received allegations of procurement irregularities. The investigation, which included an in-country mission by a multi-disciplinary team of OIG investigators and a forensic accountant, found no evidence of fraud, misappropriation or mismanagement of the grant. Nor did it find any evidence of losses of grant funds.

The OIG did identify some deficiencies in the management of the grant. These are described in the report. The NRASD has agreed to act on all of the OIG’s recommendations.

All audit and investigation reports from the OIG are available on the Global Fund website [here](#).

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